

Message Text

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ACTION AF-10

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FM AMEMBASSY BUJUMBURA
TO SECSTATE WASHDC 6815

UNCLAS SECTION 1 OF 2 BUJUMBURA 0134

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SUBJECT: UPDATE OF INVESTMENT OF CLIMATE STATEMENT

REF: 77 STATE 244738

1. ALTHOUGH THE GOVERNMENT WELCOMES PRIVATE INVESTMENT, BURUNDI'S EXTREME POVERTY (ESTIMATED GNP PER CAPITA IS 120 DOLLARS) AND ITS LIMITED DOMESTIC MARKET OF FOUR MILLION PEOPLE ARE NOT ATTRACTIVE TO PRIVATE INVESTORS. ADDITIONALLY, ITS LANDLOCKED POSITION--900 MILES FROM DAR ES SALAAM AND 1,100 MILES FROM MOMBASA--WITH RESULTING DIFFICULTIES OF TRANSPORT, ITS LACK OF RAW MATERIALS AND DEVELOPED ENERGY SOURCES, AND ITS ALMOST ENTIRELY UNSKILLED AND UNEDUCATED LABOR FORCE (ILLITERACY RATE IS 87 PERCENT) MAKE IT UNINTERESTING AS A LOW COST MANUFACTURING CENTER. AS A CONSEQUENCE, PRIVATE INFLOWS HAVE BEEN NEGLIGIBLE AND MASSIVE UNEMPLOYMENT AND UNDEREMPLOYMENT PERSISTS. (THE MINIMUM WAGE IN BUJUMBURA IS 88 CENTS A DAY.)

2. PRIVATE INVESTORS WHOSE ACTIVITIES FIT IN WITH GOVERNMENT OBJECTIVES ARE ALL THE MORE
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WELCOMED, THOUGH THE PRESENT GOVERNMENT OF BURUNDI IS MORE EXACTING WITH FOREIGN BUSINESSMEN THAN WAS THE FORMER WHICH WAS REMOVED BY A COUP D'ETAT IN 1976. THIS GOVERNMENT PREFERS TO PARTICIPATE IN JOINT VENTURES WITH FOREIGN INVESTORS AND IT WOULD UNDOUBTEDLY ASK FOR GOVERNMENT PARTICIPATION IN ANY MAJOR PRIVATE INVESTMENT. GOVERNMENT DEMANDS

FOR EQUITY IN COMPANIES ARE MOTIVATED BY BURUNDI'S DESIRE TO GUARANTEE THAT INVESTMENTS BENEFIT THE ECONOMY, TO PROVIDE THE MEANS TO ENSURE BETTER ACCOUNTING FROM COMPANIES, AND TO LINK THE INTEREST OF THE GOVERNMENT TO THOSE OF FOREIGN INVESTORS. FOR INSTANCE THE FIRST AND LAST OF THESE REASONS EXPLAIN ITS MINORPEY PARTICIPATION IN THE BREWERY, THE LARGEST MANUFACTURING FIRM IN BURUNDI. ON THE OTHER HAND, THE GOVERNMENT'S BSMAND FOR A SIGNIFICANT PARTICIPATION IN A TANNERY AND FLOUR-MILLING PLANT STEM MAINLY FROM A DESIRE TO ASSURE PROPER ACCOUNTING, SOME MANAGEMENT CONTROL, AND APROPOS THE LATTER, LOCATION SOME DISTANCE FROM BUJUMBURA THEREBY CREATING ANOTHSR CENTER OF EVMNOMIC DEVELOPMENT.

3. BURUNDI IS PREPARED TO INITIATE PROJECTS BY ITSELF IF PARTNERS CANNOT BE FOUND. IT RECENTLY APPROVED THE START OF A CANE-GROWING AND REFINING INDUSTRY WHICH WILL HAVE A POTENTIAL CAPACITY OF 14,000

TONS A YEAR, AND THE CAPITAL WILL BE RAISED BY THE GOVERNMENT. AND, BECAUSE PRIVATE INVESTMENT CAPITAL HAS NOT BEEN FLOWING INTO THE COUNTRY AT A SUFFICIENT RATE TO DEVELOP ITS AGRICULTURAL AND INDUSTRIAL BASE, IT HAS CREATED MIXED STATE ENTERPRISES WITH LIBYA, UNCLASSIFIED

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ROMANIA, AND YUGOSLAVIA. BURUNDI HAS ALSO SOUGHT HELP FROM THE CHINESE AND THE NORTH KOREAN GOVERNMENTS. THE FORMER ARE BUILDING WHAT WILL BE THE LARGEST FACTORY IN THE COUNTRY, A TEXTILE MILL, AND THE LATTER ARE PUTTING ONE UP TO FABRICATE HOES AND MACHETES.

4. FOREIGN INVESTMENTS HAVE BEEN UNTIL NOW ALMOST EXCLUSIVELY FROM GOVERNMENTAL AND INTERNATIONAL FINANCIAL INSTITUTIONS. MUCH OF THIS FINANCING HAS BEEN TO ENLARGE THE FISH CATCH AND TO DEVELOP FURTHER THE PRODUCTION OF TEA, COFFEE, COTTON, AND RICE, AS WELL AS TO CONSTRUCT ARSOCIATED PROCESSING FAALITIES. PRIVATE INFLOWS OF CAPITAL HAVE BEEN LIMITED AND MOSTLY CHANNELED INTO SMALL-SCALE AGRICULTURAL PROCESSING AND COMMERCIAL ENTERPRISES.

5. THE INVESTMENT CODE OF 1967 (SOON TO BE REVISED, THOUGH WE EXPECT NO BASIC RE-ORIENTATION FROM LIBERALISM) AND THE MINING AND PETROLEUM CODE OF 1976 ARE THE MAJOR LAWS AFFECTING PRIVATE INVESTMENT. AND, AS FAR AS AMERICAN INVESTORS ARE CONCERNED, THESE CODES ARE

SUPPLEMENTED BY AN INVESTMENT GUARANTY AGREEMENT WHICH WAS SIGNED BETWEEN THE GOVERNMENTS OF THE UNITED STATES AND BURUNDI IN 1969. FURTHERMORE, THE GENERAL CODE ON TAXATION HAS PROVISIONS TO PREVENT DOUBLE TAXATION.

6. THE INVESTMENT CODE EMPHASIZES INCENTIVES RATHER THAN RESTRICTIONS AND ASCRIBES SPECIAL TAX AND TARIFF BENEFITS TO FOREIGN INVESTORS WHO WISH TO PARTICIPATE IN THE DEVELOPMENT OF THE COUNTRY. EXAMPLES OF SUCH INCENTIVES INCLUDE EXEMPTIONS FROM CUSTOM DUTIES ON IMPORTED RAW MATERIALS AND EQUIPMENT AND ON EXPORTED MANUFACTURED GOODS FOR UP TO A MAXIMUM

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OF FIVE YEARS, HOLIDAYS FROM DIRECT AND INDIRECT TAXES FOR UP TO FIVE YEARS, FACILITATED LAND ACQUISITIONS, REPATRIATION OF UP TO SIXTY PERCENT OF INDIVIDUAL EARNINGS, AND, IN SOME CASES, FULL REMITTANCE OF PROFITS AND CAPITAL. MOREOVER, PRIORITY INVESTMENTS CAN BE GUARANTEED FIXED RATES OF DIRECT TAXATION FOR UP TO FIFTEEN YEARS. BY VIRTUE OF THIS GUARANTY, INVESTORS ARE ASSURED THAT THE RATES PREVAILING AT THE TIME THE INVESTMENT CONVENTION IS SIGNED WILL

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FM AMEMBASSY BUJUMBURA

TO SECSTATE WASHDC 6816

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REMAIN IN FORCE EVEN IF TAX RATES ARE
SUBSEQUENTLY INCREASED. ON THE OTHER HAND,
INVESTORS ALSO HAVE THE PRIVILEGE TO BENEFIT
FROM WHAT EVER REDUCTION IN RATES MAY COME ABOUT
AFTER THE SIGNING OF THE CONVENTION. TO QUALIFY
FOR THESE CONCESSIONS, FOREIGN INVESTORS SHOULD
PROPOSE TO INCREASE PRODUCTION AND PRODUCTIVITY IN
AGRICULTURE, MANUFACTURE PRODUCTS WHICH ARE IMPORT-
SUBSTITUTES OR WHICH CONTRIBUTE TO BURUNDI'S EXPORT
POTENTIAL, OR INCREASE EMPLOYMENT OPPORTUNITIES FOR BURUNDIANS.

7. THE INVESTMENT CODE OF 1967 CONTAINS NEITHER
SPECIFIC REGULATIONS NOR FIXED STANDARDS FOR
VALUING TECHNOLOGY TRANSFERS AND CONTRIBUTIONS IN
KIND. THE MINISTER FOR PLANS HAS THE RIGHT, AFTER
CONSULTING WITH THE MEMBERS OF THE NATIONAL COMMISSION
ON INVESTMENTS, TO SCREEN INVESTMENT PROJECTS AND THE
POWER TO PERMIT PROMPT APPROVAL OF THEM. HE IS
JOINTLY EMPOWERED WITH THE MINISTER OF ECONOMY AND
FINANCE TO DECIDE ON INCENTIVES AND INVESTMENT TERMS,
AND, IN KEEPING WITH RECENT PRACTICE, THEY MAY
REQUIRE THAT BURUNDI BE ALLOWED EQUITY PARTICIPATION
IN SPECIFIC VENTURES. AS FOR THE REVISED MINING AND
PETROLEUM CODE, IT IS MORE RESTRICTIVE THAN THE
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FORMER, BUT STILL ALLOWS FOR CONCESSIONS OF UP TO
25 YEARS. MORE IMPORTANTLY, THOUGH, THE
CODE EXPLICITLY RECOGNIZES THE RIGHT OF THE
GOVERNMENT TO BE PARTY TO ANY MINING VENTURE.
(A COPY OF THE REVISED CODE, DECREE NUMBER
1/138 OF JULY 17, 1976, IS BEING FURNISHED TO
THE DEPARTMENT.)

8. IN ITS RELATIONS WITH WOULD-BE INVESTORS,
BURUNDI CAN BE EXPECTED TO ABIDE BY INTERNATIONAL
AGREEMENTS ON PATENT RIGHTS, ROYALTY TRANSFERS,
PROTECTION OF TRADEMARKS, AND OTHER REQUIREMENTS
WHICH MAKE FOR A FAVORABLE INVESTMENT CLIMATE.
IN THIS RESPECT, BURUNDI RECENTLY RATIFIED AN
INTERNATIONAL CONVENTION ON THE PROTECTION OF INDUSTRIAL
PROPERTY RIGHTS. IN CONTRAST, BURUNDI DOES NOT RESORT
TO INTERNATIONAL ARBITRATION OF INVESTMENT DISPUTES.

9. A CASE IN POINT IS THAT OF PRIVATE INVESTORS NOW
CONTESTING WITH THE GOVERNMENT FOR COMPENSATION OF
RUN-DOWN COFFEE-DRYING PLANTS WHICH IT EXPROPRIATED
IN 1974. WE HAVE BEEN TOLD THAT THE MAJOR OBSTACLE
TO A RESOLUTION OF THE ISSUE IS LACK OF AGREEMENT
ON THE AMOUNT OF DEPRECIATION WHICH SHOULD BE

DEDUCTED FROM THE BOOK VALUE OF THE PLANTS SINCE THE TAKEOVER. AN ARBITRATION COMMITTEE MADE UP OF INVESTOR AND GOVERNMENT REPRESENTATIVES MEETS INFREQUENTLY TO TRY TO REACH A COMPROMISE. IN ALL PROBABILITY, BURUNDI WILL NOT END THE DEADLOCK BY OUTRIGHT CONFISCATION BECAUSE OF THE DEPRESSING EFFECT THIS WOULD HAVE ON PRIVATE INVESTMENT.

10. OPIC HAS NO PROGRAM IN BURUNDI, BUT IT
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MAY HAVE IN THE FUTURE IF THE EXTENSIVE HSNERAL DEPOSITS WHICH ARE NOW THE SUBJECT OF PREFEASIBILITY STUDIES ARE EVER DEVELOPED. THE GOVERNMENT FERVENTLY HOPES THAT A CONSORTIUM OF FOREIGN INVESTORS (SOME OF WHOM ARE AMERICANS) WILL AT SOME TIME EXPLOIT ITS 200 MILLION TONS OF NICKEL ORE. BURUNDI IS ALSO ADVOCATING ECONOMIC AND TRADE COOPERATION WITH THE KIVU PROVINCE OF ZAIRE AND NEIGHBORING RWANDA TO CREATE FOR ITSELF AN ATTRACTIVE EXPORT MARKER.

11. AT THE END OF 1977, TOTAL BOOK VALUE OF 7.S. DIRECT INVESTMENT IN BURUNDI WAS 300,000 DOLLARS, AS REPORTED TO US BY THE AFFILIATES OF MOBIL OIL COMPANY AND TEXACO. THE BELGIAM EMBASSY ESTIMATED YEAR-END BELGIAN INVESTMENT AT TEN MILLION DOLLARS. THE VALUE OF OTHER PRIVATE INVESTMENT IS NOT AVAILABLE TO US, BUT THE GREEKS, INDIANS, AND ITALIANS, PROBABLY IN THAT ORDER, MAY EACH HAVE INVESTMENTS OF A FEWNSILLION DOLLARS. THE GERMANS, DUTCH, DANES, LIBYANS, ROMANIANS, AND YUGOSLAVS PROBABLY EACH HAVE MUCH LESS THAN A MILLION DOLLARS INVESTED HERE.
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